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21 District Counsel for Tulare Local Healthcare District

22 IN THE UNITED STATES BANKRUPTCY COURT

23 EASTERN DISTRICT OF CALIFORNIA

24 FRESNO DIVISION

25 In re

26 TULARE LOCAL HEALTHCARE
27 DISTRICT, dba TULARE
28 REGIONAL MEDICAL CENTER,

29 Debtor.

30 Tax ID #: 94-6002897
31 Address: 869 N. Cherry St.
32 Tulare, CA 93274

33 CASE NO. 17-13797

34 Chapter 9

35 DC No.: WW-41

36 Date: August 2, 2018
37 Time: 9:30 a.m.
38 Place: 2500 Tulare Street
39 Fresno, CA 93721
40 Courtroom 13
41 Judge: Honorable René Lastreto II

42 FIRST SUPPLEMENT TO MOTION FOR AUTHORITY TO ENTER INTO
43 TRANSACTION INCLUDING BORROWING FUNDS, SALES OF PERSONAL
44 PROPERTY AND PROVIDING SECURITY, ASSUMPTION AND ASSIGNMENT OF
45 CONTRACTS AND LEASES AND FOR AUTHORITY TO LEASE REAL PROPERTY
46 PURSUANT TO 11 U.S.C. §§ 105, 362, 364, 365, 901 AND 922

1 TO THE HONORABLE RENÉ LASTRETO II, UNITED STATES BANKRUPTCY
2 JUDGE:

3 Tulare Local Healthcare District, dba Tulare Regional Medical Center, by counsel,
4 respectfully comes before the Court to supplement the Motion for Authority to Enter into
5 Transaction Including Borrowing Funds, Sales of Personal Property and Providing
6 Security Assumption and Assignment of Contracts and Leases and for Authority to
7 Lease Real Property Pursuant to U.S.C. §§ 105, 362, 364, 365, 901 and 922, as
8 follows:

9 1. On July 19, 2018, the Court granted an Order Shortening Time allowing
10 for a hearing on the District's Motion for Authority to Enter into Transaction Including
11 Borrowing Funds, Sales of Personal Property and Providing Security Assumption and
12 Assignment of Contracts and Leases and for Authority to Lease Real Property Pursuant
13 to U.S.C. §§ 105, 362, 364, 365, 901 and 922 ("Motion").

14 2. Pursuant to the Order Shortening Time, on July 20, 2018 the Debtor gave
15 the notice required by the Order Shortening Time.

16 3. Since giving notice, the District has learned of needed corrections and
17 clarifications to the Motion that it wishes to draw to the attention of the Court.

18 4. On page 21 of the Motion, beginning at line 6, there is a discussion of the
19 real properties to be taken as collateral pursuant to the APA. The description contained
20 there is incorrect. The properties that will serve as collateral are:

- 21 a. 1425 East Prosperity;
22 b. 591 East Merritt;
23 c. 935-945 North Gem Street;
24 d. 979 North Gem Street;
25 e. 874, 890 and 922 North Cherry Street;
26 f. 793, 795 and 799 North Cherry Street;
27 g. 1050 North Cherry Street.
28

1 5. On pages 5 and 6 of the Motion, reference is made to the timing of the
2 final hearing as being "on or before August 9, 2018". Due to long planned vacations by
3 counsel for Adventist Health and the District, at the August 2, 2018 hearing a request
4 will be made for holding the final hearing to be held on either August 7 at 1:30 p.m. or
5 August 8 at 9:30 a.m.

6 6. At the August 2, 2018 hearing District Counsel will appear with Chapter 9
7 Counsel and be prepared to present an overview of the definitive documents and
8 answer specific questions concerning the definitive agreements. An outline of District
9 Counsel's presentation is attached as Exhibit A.

10 7. Redlined versions of the definitive documents reflecting changes July 31,
11 2018 will be posted to the District's website at www.tularelocalhealthcaredistrict.org.

12 8. The District and Wilmington Trust as indenture trustee/paying agent on the
13 District's revenue bonds and general obligation bonds are in discussions for an
14 agreement for adequate protection. The redlined Order authorizing the District to enter
15 into the transaction will be provided to the Court in advance of the hearing if an
16 agreement is reached.

17 WHEREFORE, Tulare Local Healthcare District, dba Tulare Regional Medical
18 Center, prays that the Court be so informed and apprised accordingly and it seeks such
19 other and further relief as is just and proper.

20 Dated: July 31, 2018

WALTER WILHELM LAW GROUP,
a Professional Corporation

22 By: Riley C. Walter
23 Riley C. Walter,
24 Attorneys for Debtor, Tulare Local
25 Healthcare District, dba
26 Tulare Regional Medical Center

Structure

- Transfer TRMC Leasehold Interest to Adventist Health Tulare
- Purchase of assets by Adventist Health Tulare
- Guarantee of Adventist Health/West
- Loan/Line of Credit
- Interim Management

Transaction Documents

- Lease and Memorandum of Lease
- Agreement for Purchase and Sale of Assets
- Credit Agreement with Deed of Trust and Security Agreement
- Interim Management Service Agreement

Lease

- 66-month term with six-month fixturing period
- Four 5-year renewal options and one 54-month renewal option
- Premises includes hospital and ancillary spaces, including clinics and women's pavilion
- Fair market value Lease rate to be determined by Deloitte valuation
- Triple net lease with operating costs paid by Adventist
- Lease requires Adventist to operate the hospital as an "acute care" hospital. Failure to do so is a default.
- Adventist option to buy subject to a second separate public ballot measure
- Memorandum of lease to provide notice of lease

Asset Purchase Agreement

- Adventist will purchase specified non-fixed on transfer of license
- At transfer of license, Adventist will pay fair market value as determined by Deloitte
- Payment will be applied against outstanding obligations on line of credit.

Guaranty

- Adventist Health Tulare, a newly formed subsidiary of Adventist Health/West, is entering into transaction
- Adventist Health/West guarantee of AH Tulare's obligations under both the lease and the asset purchase agreement.

Credit Agreement

- Adventist Health will loan the District up to \$10 million for reopening the hospital
- Use limited to reopening hospital and other approved uses
- District will have access to funds when approved by the Board and Bankruptcy Court
- District can draw on the credit until hospital reopens
- District repayment depends on whether lease approved
 - If lease approved, through lease offsets at 100% for one year and 50% until paid
 - If lease not approved over five years

Security Agreements

- Deed of Trust and Security Agreement
- District will secure the line of credit with the assets purchased and real property, including a second on Evolutions
- Security agreements include provisions for subordination on certain conditions and releases as District pays down the line of credit

Interim Management Services Agreement

- Provides for Adventist to manage the hospital as a PUBLIC ACUTE CARE HOSPITAL from reopening through license transfer
- The District will continue to operate the hospital
- Adventist pays all operating expenses
- Adventist fee is net revenue up to a fixed amount.

Timeline

- **7/19/18 -8/7/18: APPROVAL**
 - Adventist Health/West (7/19)
 - TLHD Board (8/1)
 - Bankruptcy Court (8/2 and 8/7)
- **8/8/18-10/28/18 (Projected): HOSPITAL REOPENING PROCESS**
 - Adventist provide line of credit
 - HFS/Wipfli work with Adventist to complete steps necessary to reopen TRMC
- **10/28/18 (Projected) -11/5/18 Adventist manages hospital for District**
 - CDPH approval of reopening
 - Interim Management Services Agreement becomes effective
 - Line of credit closes
 - Adventist Health assumes costs of hospital operations
- **11/6/18: ELECTION ON HOSPITAL LEASE BALLOT MEASURE**
 - *If measure fails, documents become void and District assumes responsibility for hospital*
- **11/7/18-12/31/18: Adventist continues to manage hospital for District**
- **1/1/19- 5/31/24 -- Adventist operates hospital under lease**
 - Lease becomes effective
 - Asset purchase agreement becomes effective
 - Adventist Health assume operational control of hospital
 - District continues to fulfill healthcare mission in community through provision of other health-related services.